Legacy Financial
INDEPENDENT ADVISORS

1st Quarter | 2025

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Econ 101: Tariffs 2.0

Lately, the U.S. trade deficit and tariffs on foreign products have been hot topics in the news. With all the headlines, it's important to understand trade deficits, tariffs, and how they might affect you.

Trade Deficit

A trade deficit occurs when a country buys more goods from other countries (imports) than it sells to them (exports). According to the Bureau of Economic Analysis, in 2024, the U.S. purchased goods worth $3.3 trillion from other countries (imports) and sold goods worth $2.1 trillion to other countries (exports). With a $29 trillion economy, this means the U.S. had a trade deficit of $1.2 trillion—we bought more goods from other countries than they purchased from us. Unlike a budget deficit, where the government borrows money, a trade deficit simply reflects our choice to buy goods like bananas from Brazil rather than growing them ourselves (you could call this the banana deficit).

Tariffs

A tariff is a tax on imported goods. Think of it as a sales tax applied to products coming from other countries.

Why Would We Apply a Tariff?

The main idea behind tariffs, besides generating tax revenue for the government, is to make cheaper foreign goods more expensive. This encourages people to buy more products made in the U.S., which can create more jobs locally.

Example of a Tariff

To promote fair trade, the U.S. might apply a 25% tariff on imported steel and aluminum. This makes foreign steel more expensive, encouraging us to buy more U.S. steel. Jobs in the steel industry, which employs nearly 140,000 people, might increase. However, if the price of steel goes up, it may lead to fewer purchases, and potentially fewer new jobs than expected in the steel industry. Alternatively, jobs in industries that consume steel (which employ 6.5 million people) might decrease due to higher steel prices.

Foreign Retaliation

When the U.S. imposes tariffs, foreign countries may retaliate by taxing U.S. goods like motorcycles, agricultural products, and Kentucky bourbon. If we sell less of these goods overseas, then jobs in these industries may decrease. This back-and-forth can lead to a trade war, with few winners and many losers. Donald Luskin of Trend Macrolytics LLC described it well: "It's like a drinking contest: you harm yourself and hope your opponent isn't able to withstand as much."

What This Means to You

While tariffs can be an effective negotiating tool (we'll leave that to the politicians), Economics 101 teaches us that increasing tariffs and engaging in trade wars can slow the economy. The U.S. stock market is the most overvalued it has been in nearly 25 years. To maintain market progress, we need all the economic growth we can get.

What We Know, What We Think

	What We Know	What We Think
MARKET	The stock market remains historically over-valued. As the market has risen faster than earnings in recent quarters, the historic Price-to-Earnings Ratio (P/E) has increased.	We remain cautious. According to Ned Davis Research (NDR), 4th quarter year-over-year earnings growth has declined to +12% from earlier expectations of +16%. Any underperformance in earnings will make forward P/Es appear even more overvalued.
INTEREST RATES	The interest rate on the 10-Year Treasury has risen to almost 4.75%, nearing the highest yields of 2024.	Going forward, we expect the yield on the 10-Year Treasury Bond to stabilize in the 4-5% range.
ECONOMY	The overall consumer price index (CPI) has fallen from its peak of 9.1% to 2.7%, as service inflation remains stubbornly high at 4.6%.	While in the last several months, the annual inflation rate has trended below 3%, it remains above the Fed's long-term target of 2%. This likely will keep the Fed from lowering short-term rates too quickly.

How Capital Gains Work

Plan for capital gains in 2025

by Chris McCrea

Capital gains apply to various assets, including stocks, bonds, mutual funds, real estate, and even collectibles like art. When you sell one of those assets, the government levies a capital gains tax on the profits. An individual's income level, the asset's holding period, and the type of asset held will determine your tax rate for capital gains. Some states may also tax capital gains at varying rates.

Short-Term vs. Long-Term Capital Gains

Capital gains are categorized based on how long you hold the asset before selling:

- *Short-Term Capital Gains:* The government taxes the gains on assets held for less than one year as ordinary income, meaning at the same tax rates as your salary.
- *Long-Term Capital Gains:* Assets held for more than one year are considered long-term. Depending on your stage of life and income, the government may tax these gains at lower rates.

2025 Long-Term Capital Gains Rates

Filing Status	0% Rate (Income Below)	15% Rate (Income Up to)	20% Rate (Income Above)
Single	$48,350	$533,400	$533,401
Married Filing Jointly	$96,700	$600,050	$600,051
Head of Household	$64,750	$566,700	$566,701

You can use capital gains strategies to minimize your tax burden and maximize investment returns by strategically holding assets, leveraging tax exemptions, and using tax-loss harvesting.

How We Can Help: We look at your entire financial situation, evaluate how your sources of income will affect your taxes, and then invest or liquidate assets to minimize your tax liability.* Call your advisor to learn which strategies are best for you.

*Ultimately, it is essential to consult a tax professional or a tax advisor who is well-versed in tax rules and regulations, who can provide personalized guidance based on your specific situation, and who can help you navigate the complexities of tax.

How Donor Advised Funds Work

Give more away and pay less taxes

by TC Falkner, CFP®

If you are interested in increasing your charitable giving or making your giving more efficient, then a Donor-Advised Fund (DAF) may be helpful to you. DAFs allow people to make tax-deductible contributions to a specific "giving" account. Once established, you can contribute cash, appreciated stock, and/or other assets to offset tax liabilities you may have. This account can then become your main "giving" account for charities and organizations that you support.

Generally, there are not many rules on how long assets must stay in the fund before going to charity. As a result, a popular strategy involves "bunching" multiple years of charitable giving into one large DAF contribution. This allows people to claim a large deduction in one year while still generously giving to charity over time, but from the DAF itself. This strategy can be especially helpful in high-income years, like the sale of a business or rental property.

How We Can Help: Your Legacy advisor can help you leverage DAFs in your financial plan to ensure your cash flow is as efficient and effective as possible so that you can give more to charity.

At Legacy Financial, we provide peace of mind for your financial future.

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